



MINISTRY OF FINANCE

# Budget review 2019

Review of budget proposal,  
September 2018

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Ministry of Finance publications – 29c/2018



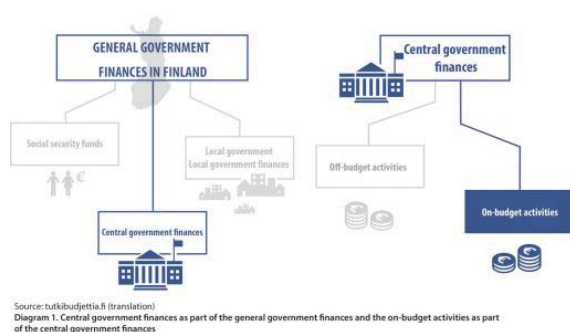
Economic Policy

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# 1 Introduction

General government finances in Finland consist of central government, local government and social security funds. Central government finances include the central government budget economy i.e. the on-budget activities and off-budget activities (the off-budget activities are discussed in chapter 9 "Extra-budgetary central government finances" of the budget). The position of central government on-budget activities in central government finances and general government finances is illustrated by Diagram 1. This publication is mainly concerned with the central government on-budget activities. The Government's budget proposal for 2019, which will be submitted to Parliament in September, is the topic of examination. The purpose is to provide a concise description of the main themes of the budget with the help of diagrams and tables as well as to guide the reader to explore the themes in more detail via Internet links. The background materials for budgeting include the independent economic forecasts produced by the Economics Department at the Ministry of Finance, which are presented in the Economic Survey.



The central government budget is a plan concerned with the central government's finan-

ces and financial management prepared on the basis of the General Government Fiscal Plan published in the spring. In practice, the budget evaluates the extent and allocation of central government revenue and expenditure for the following year. The Government negotiates on the budget proposal in the budget session.

In Finland, the Parliament has the prime decision-making authority on the use of central government resources. The Parliament primarily exercises its power in two ways: by enacting laws and approving budgets. The majority of the content of the budget is bound by law and, indeed, laws are often amended before making decisions on the budget. The Parliament approves the budget for the following budget year before the end of the previous budget year.

The Government Programme defines the Government's main economic policies, which serve as the basis for preparing the budget. At the beginning of the parliamentary term, the Government also decides on the spending limits for the parliamentary term, i.e. the central government's expenditure ceiling, and the rules for the spending limits procedure. At the same time, the spending limits set the outline for the entire expenditure during the four-year parliamentary term. The spending limits' allocation for each administrative branch is reviewed within the parliamentary term spending limits in April as part of the General Government Fiscal Plan, and updates the spending limits to correspond to changes to the level of costs, prices and spending limit expenditure structure. For more infor-

mation, see <http://vm.fi/en/central-government-spending-limits>.

The final sum of the budget proposal for 2019 is EUR 55.3 billion. Most of the appropriations will be spent on social security. Revenue will be primarily collected in taxes based on turnover, such as value-added tax, and income taxes, including earned income and capital income tax. The central government on-budget deficit is predicted to amount to EUR 1.4 billion and central government debt is expected to rise to approximately EUR 109 billion.

The following chapter includes an overview of the economic outlook in the areas of real economy and general government finances. Chapter 3 is concerned with the Government's economic policy goals and their im-

plementation. Chapter 4 examines the budget from a sustainable development perspective. Chapter 5 includes revenue and expenditure estimates, deficit and debt in the central government budget proposal. Local government and regional finances are also discussed from the viewpoint of the on-budget activities. Chapter 6 includes a summary of the review.



## 2 Economic outlook



Table 1. Trends in the national economy 2016–2019  
September 2018 forecast

	2016*	2017*	2018**	2019**
GDP at market prices (EUR bn)	216	224	234	242
GDP, change in volume (%)	2.5	2.8	3.0	1.7
Unemployment rate (%)	8.8	8.6	7.4	6.9
Employment rate (%)	68.7	69.6	71.7	72.4
Consumer price index, change (%)	0.4	0.7	1.1	1.4
Interest rate (10 year bonds) (%)	0.4	0.6	0.8	1.2

\* Advance information

\*\* Forecast

The economic review of the Ministry of Finance deals with the economic outlook at the national and international level as well as economic policy and general government finance.

### Real economy

The upswing in the global economy will continue, but the fastest growth phase has already passed. Growth of Finland's economy will slow to 1.7% in 2019. In the next few years, the economy will be supported particularly by domestic demand and foreign trade. Household demand will be limited, however, by slower growth in real disposable income. Growth of investment is projected to slow in 2019. This is due, in particular, to a decline in the number of start-ups for new construction projects. The reasonably rapid growth in GDP will maintain demand for labour, and employment will increase. The unemployment rate is projected to fall to 6.9% per cent and the employment rate to rise to 72.4% in 2019. Key forecast figures for 2016–2019 have been compiled in Table 1.

### General government finances

The economy of Finland has achieved significant growth and the general government deficit has declined in recent years, driven by economic growth. The consolidation measures decided by the Government have also strengthened the financial position. As the positive economic climate continues, the financial position will follow a similar track in the next few years, and the balance of general government finances will be nearly restored in 2019. General government debt in ratio to GDP will fall below 60% in 2018.

At the turn of the decade, however, the state of general government finances is still fragile. Despite good economic growth, general government debt will continue to increase nominally, the debt level will be high when the next downturn arrives. Structural factors burdening the economy will also exert pressure on general government finances in the 2020s. Population ageing will increase expenditure on pensions as well as on care and nursing. Table 2 presents key indicators for general government finances for 2016–2019.



Table 2. Key figures measured in terms of national accounting in ratio to GDP, percent  
September 2018 forecast

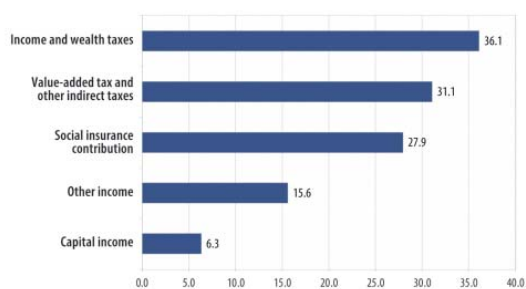
% of GDP	2016*	2017*	2018**	2019**
Taxes and social security contributions	44.0	43.3	42.2	42.1
General government expenditure	55.9	54.0	52.6	51.9
Net lending	-1.7	-0.7	-0.7	-0.1
- central government	-2.7	-1.8	-1.5	-0.7
- local government	-0.4	-0.1	-0.5	-0.3
- employment pension schemes	1.1	0.9	0.9	0.9
- other social security funds	0.2	0.3	0.4	0.1
General government debt	63.0	61.3	59.9	59.1
Central government debt <sup>1)</sup>	47.4	47.3	46.0	45.3

\* Advance information

\*\* Forecast

1) The estimate of central government debt by the Economics Department of the Ministry of Finance differs from that estimated based on the budget, for instance, due to updated revenue forecasts

In addition to economic cycles, the structures of general government finances are also reflected on the revenue contributions to general government and the allocation of expenditure. Diagram 2 illustrates that the majority of general government revenue was collected as income or wealth tax, and as indirect tax, in 2016.

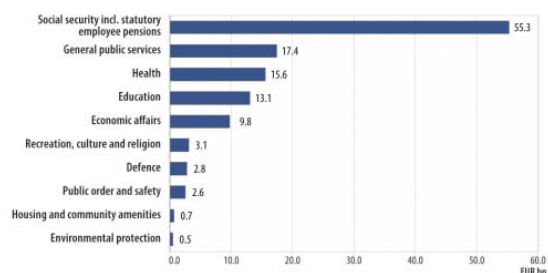


Source: Statistics Finland

Diagram 2. General government revenue in 2016, EUR bn

Most of general government expenditure consists of expenditure on social security benefits, as shown in Diagram 3. This expenditure includes pensions, unemployment benefits, benefits aimed at families as well as housing allowance, allowances during illness

and allowances preventing social exclusion.



Source: Statistics Finland, National Accounts

Diagram 3. General government expenditure by function (COFOG) in 2016, EUR bn

Table 3 illustrates the average extent of the costs resulting from education and culture as well as social welfare and health care services. The table reveals, for example, that the costs per student of vocational education and training were the highest compared with other forms of education in 2016.

Table 3. Average expenses of selected public services in 2016

Table 1: Average unit costs of selected public services in 1996		
	EUR	
<b>Education and culture</b>		
Basic education	9,016.0	/pupil
Upper secondary education	7,661.0	/student
Initial vocational education	11,160.0	/student
Polytechnic education	8,035.0	/student
University education	8,985.0	/student
Public libraries	3.6	/loan
<b>Social services</b>		
Children's day care <sup>1)</sup>	86.0	/day
Old people's homes <sup>2)</sup>	152.0	/day
<b>Health care services</b>		
Basic health care		
- Visit to health centre <sup>3)</sup>	80.1	/visit
- Ward treatment	280.0	/day
- Dental care	88.3	/visit
Special medical treatment		
- Somatic specialised medical treatment <sup>4)</sup>	1,141.9	/day

1) Includes part-time and full-time day care financed by municipalities. The number of days of care has been weighted in terms of part-time and full-time day care, with a weighting factor of 0.6 used for days of part-time day care and a weighting factor of 1 for days of full-time day care.

2) Based on the costs of the six largest 'Kuusikko' municipalities.

3) Includes all visits, incl. e.g. child welfare clinic and physiotherapy. The average cost of a visit to a doctor in basic health care is EUR 51.1/visit.

4) Includes inpatient care and day surgery

Sources: National Board of Education, National Institute for Health and Welfare, Finnish Public Libraries Statistics and Statistics Finland

### 3 Government economic policy

Prime Minister Sipilä's Government decided on its economic policy in the Government Programme (<http://valtioneuvosto.fi/en/sipila/government-programme>). The Government's objective is to raise Finland's economy on to a path of sustainable growth and rising employment, and to secure the funding of public services and social security. The objective is for the increase in general government debt ratio to GDP to level off by the end of the parliamentary term and to bring living on debt to an end in 2021.

In addition to fiscal policy objectives, the Government has set as targets that the employment rate will rise to 72% and the number of people in employment by 110,000 during the parliamentary term. In the light of current forecasts, these employment targets are being met. The achievement of the objectives is facilitated by the good economic climate. The rapid growth in employment has increased tax revenue and the decline in unemployment has reduced unemployment expenditure.

The Government has supported the sustainable growth of the economy and employment through structural reforms. Efforts have been made to increase demand for labour with the Competitiveness Pact, which entered into effect in 2017 and has improved the competitiveness of Finnish businesses. Supply of labour, on the other hand, has been boosted by, for example, removing incentive traps, increasing labour mobility and reforming the unemployment benefit system and employment services. At the same time, the Gov-

ernment has adhered to the Government Programme policy of not increasing the taxation of wage earners.

A cornerstone of the Government's economic policy is bridging the sustainability gap. At the beginning of the parliamentary term, the sustainability gap was estimated to be approximately EUR 10 billion at 2019 prices. The immediate consolidation measures in accordance with the Government Programme have been recorded in the central government spending limits and are for 2019 included in the budget proposal. The immediate consolidation measures account for approximately EUR 4 billion of the EUR 10 billion package of measures, although there remains uncertainty associated with the impact of measures dependent on decisions by municipalities and with the impact assessments of certain measures. The regional government, health and social services reform as well as other measures to reform public administration may, if successful, strengthen general government finances by EUR 4 billion in the long term.

In addition to the debt target, the Government has set targets for the general government budgetary position related, on the one hand, to the budgetary position of central government, local government and the social security funds during the parliamentary term and, on the other hand, to the combined structural budgetary position of general government in the medium term. Table 4 describes these objectives and rules that guide Finland's fiscal policy targets, and compares them with the forecast by the Ministry of Finance. In the light of the forecast,

the sector-specific budgetary objectives for general government finances will be broadly achieved. Local government and the social security funds will achieve the objectives set for them, and central government will more or less reach the objective set for it.

Finland's general government fiscal targets are also governed by EU regulations, most significant of which is the Stability and Growth Pact, which requires that Member States maintain structural balance in general government finances and avoid excessive debt.

Table 4. Objectives and rules steering Finland's fiscal policy

Public finance sector	Variable	Target for 2019, % of GDP	Forecast for 2019, % of GDP
<b>Government's budgetary targets for the parliamentary term</b>			
Central government	Deficit	no more than -0.5 %	-0.7 %
Local government sector	Deficit	no more than -0.5 %	-0.3 %
Social security funds			
- Earnings-related pension funds	Surplus	approximately 1.0 %	0.9 %
- Other social security funds	Financial standing	approximately 0.0 %	0.1 %
General government finances	Debt	debt-to-GDP ratio in 2019 < in 2018	59.1 %
<b>EU rules</b>			
General government finances	Deficit	no more than -3.0 %	-0.1 %
	Debt*	60 %	59.1 %
	Medium-term budgetary objective (MTO) for structural budgetary position**	-0.5 %	-0.7 %

\* The interpretation of the EU's debt rule also takes into account e.g. the speed of debt reduction in the past and the future.

\*\* Under the Stability and Growth Pact, EU Member States are obligated to set a medium-term budgetary objective (MTO) for the structural deficit of general government finances. The structural deficit of 0.5% in ratio to GDP has been set as Finland's MTO. In spring 2017, Finland was granted flexibility, under the structural reform and investment clauses, totalling 0.6% in ratio to GDP due to reforms supporting the sustainability of general government finances and the implementation of EU co-funded investment projects. The Government aims to reach the MTO in 2019. More information in chapter 3 on the general rationale of the budget proposal.





## 4 Sustainable development



The global 2030 Agenda for Sustainable Development was adopted at the UN Summit in 2015. It sets common goals for sustainable development for all UN member states. The Government has prepared a report on the implementation of the 2030 Agenda, outlining the key focus areas and actions for enhancing sustainable development in Finland economically, socially and environmentally. The Government's national implementation of the 2030 Agenda is based on two focus areas: *A carbon-neutral and resource-wise Finland* and *A non-discriminating, equal and competent Finland*. Chapter 6 of the general strategy and outlook of the budget proposal focuses on sustainable development.



Diagram 4. Sustainable Development Goals (SDG), 2030 Agenda for Sustainable Development

### 4.1 Appropriations

In connection with the preparation of the 2019 budget proposal, the appropriations included in the budget proposal that promote the goals of the focus area *A carbon-neutral and resource-wise Finland* have been identified. The said appropriations are presented in Tables 5-7 and they are broken down according to the key actions of the above-mentioned report. The identified appropriations will promote, among other things, biodiversity and the wellbeing of the environment and nature, reduce emissions, advance bioeconomy solutions and develop Finland towards a low-carbon society. The identified appropriations can be found, in particular, in the administrative branches of the Ministry of Economic Affairs and Employment, the Ministry of Agriculture and Forestry, the Ministry of Transport and Communications, the Ministry of the Environment and the Ministry for Foreign Affairs.

Table 5. A carbon-neutral and resource-wise Finland, report actions 1.1 and 1.2

			Budget 2018 EUR million	Budget proposal 2019 EUR million
1.1 Launch the implementation of the energy and climate strategy				
1.2 Prepare and implement a plan for medium-term climate policy				
MINTC	31.10.35	Discretionary government transfer for construction of Western Metro	31.5	12.0
	31.10.36	Discretionary government transfer for construction of rail transport projects	16.1	25.1
	31.20.40	Vehicle scrapping premium	8.0	0.0
	31.20.42	Acquisition and conversion support for electric cars and gas and ethanol conversions of cars	6.0	6.0
	31.30.63	Purchase and development of public transport services* (excl. air transport purchases and Merenkulku transport)	88.7	87.5
MEAE	32.20.28	Promoting materials efficiency	0.4	0.4
	32.50.64	EU and central government financial contribution to EU Structural Fund, External Border Cooperation and other Cohesion Policy programmes* (In programme period 2014–2020, it has been agreed to use 25% of ERDF funding on Structural Fund programme special objectives towards a low-carbon economy)	52.0	58.0
	32.60.20	Promoting energy efficiency and the use of renewable energy	3.5	3.4
	32.60.40	Energy subsidy (The energy subsidy is part of economic steering aimed at directing the energy system towards more efficient and climate- and environment-friendly solutions)	57.7	47.3
	32.60.44	Renewable energy production subsidy	314.1	261.4
	32.60.45	Investment support for renewable energy and new energy technology	40.0	0.0
	32.60.47	Promoting infrastructure for electric transport and biogas transport use	3.0	3.0
ME	35.10.22	Certain environment expenditure items* (Climate Panel and climate project)	1.5	1.5
	35.10.61	Promoting waterways and environmental management* (Wood construction programme)	2.2	2.0
	35.20.52	Grants to promote residential buildings' electric transport infrastructure	1.5	1.5
Total			626.2	509.1

\* Only the stated portion of the item's appropriations relate to the key aim of a carbon-neutral and resource-wise Finland

Table 6. A carbon-neutral and resource-wise Finland, report action 1.3

1.3 Create sustainable bioeconomy and cleantech solutions			Budget 2018 EUR million	Budget proposal 2019 EUR million
MAF	30.10.40	Agricultural startup and investment grants* (Investments promoting state of environment and renewable energy use)	9.5	10.8
	30.10.64	EU and central government financial contribution to regional and local rural development (Rural development programme also includes environmental and climate projects)	95.0	107.8
	30.20.41	EU income support and EU market support* (Greening support)	157.5	157.5
	30.20.43	Environmental compensation, organic production, advice and non-productive investments	290.7	290.7
	30.20.47	Food chain development* (Growing demand for domestic food and promoting exports)	0.5	0.3
	30.20.61	Transfer to Agriculture Development Fund* (Investment grants aimed at improving fields for production, production hygiene and animal welfare)	6.7	0.0
	30.40.22	Promoting natural resource economy and bioeconomy	14.9	6.0
	30.40.31	Supporting waterways and fisheries projects	8.5	4.6
	30.40.44	Support for ensuring sustainability of wood production	56.2	56.2
	30.40.45	Promoting forest nature management	5.0	5.0
MEAE	32.20.43	Supporting the commercialisation of cleantech and bioeconomy solutions and innovations	49.3	0.0
ME	35.10.21	Certain nature protection expenditure items*	1.2	1.4
	35.10.22	Certain environment expenditure items* (Promoting protection of Baltic Sea and waterways)	7.0	9.0
	35.10.52	Metsähallitus' public administration duties* (Tourism 4.0 project, nature tourism)	1.7	1.2
	35.10.61	Promoting waterways and environmental management* (Implementation of waterways and marine management plans)	4.4	12.0
	35.10.63	Nature reserve acquisition and compensation expenditure*	20.0	20.0
<b>Total</b>			<b>728.1</b>	<b>681.0</b>

\* Only the stated portion of the item's appropriations relate to the key aim of a carbon-neutral and resource-wise Finland

Table 7. A carbon-neutral and resource-wise Finland, report actions 1.4, 1.5, 1.6 and 1.9

1.4 Follow the road map to the circular economy alongside implementing organisations			Budget 2018 EUR million	Budget proposal 2019 EUR million
MEAE	32.20.44	Circular economy investment and development support <i>In addition, the circular economy action 1.4 is supported by Business Finland financing, i.e. with the appropriations of items 32.20.40, 32.20.43 and 32.20.83.</i>	2.0	2.0
1.5 Accelerate public procurement in central and local government				
MEAE	32.20.42	Developing growth ecosystems and innovative public procurement*	4.0	4.0
1.6 Support sustainable innovations				
MFA	24.30.66	Official development assistance* (Support for the UN Technology Innovation Lab and support for the UN Children's Fund and UN Population Fund's innovation funds)	4.5	4.5
MEAE	32.20.40	Supporting research, development and innovation*	120.0	121.2
	32.20.83	Loans for research and innovation*	75.0	75.0
<b>Total</b>			<b>199.5</b>	<b>200.7</b>
1.9 Promote carbon-neutrality and wise use of resources globally				
MFA	24.30.66	Official development assistance* (Includes projects aimed at food security, access to water and energy, and sustainable use of natural resources)	144.0	159.0
	24.30.88	Increasing Finland's capital* (Climate projects)	6.0	6.0
	24.30.89	Development cooperation financial investments* (Climate projects)	78.0	130.0
	24.90.67	Expenditure for cooperation under the International Climate Agreement	0.1	0.1
	24.90.68	Baltic Sea, Barents and Arctic cooperation		1.5
<b>Total (Tables 5-7)</b>			<b>1,787.9</b>	<b>1,693.4</b>

\* Only the stated portion of the item's appropriations relate to the key aim of a carbon-neutral and resource-wise Finland

The goals of the carbon-neutral and resource-wise Finland focus area will be promoted with a total of approximately EUR 1.7 billion in the 2019 budget proposal. This represents a decrease of approximately EUR 95 million from 2018, mainly due to the termination of Government key projects at the end of 2018. The Government that takes office after the 2019 parliamentary elections will decide on possible changes in the appropriation levels.

The largest package of measures is the creation of bioeconomy and cleantech solutions, presented in Table 6, for which EUR 681 million is proposed for 2019. Of this, the lar-

gest share, EUR 290.7 million, consists of environmental compensation, organic production, advice and non-productive investments. In addition, a significant package of measures, presented in Table 5, is the implementation of the energy and climate strategy and the medium-term climate policy, for which a total of EUR 509.1 million is proposed. Of this sum, EUR 261.4 million is allocated to the production subsidy for renewable energy.

Other significant individual appropriation items include the purchase and development of public transport services (EUR 87.5 million), funding for regional and local rural development (EUR 107 million), greening support (EUR 157.5 million), support for sustainable development research, development and innovation (EUR 121.2 million) and development cooperation projects, which will promote, for example, food security and sustainable use of natural resources (EUR 159 million).

## 4.2 Taxes

The budget proposal includes a number of taxes that may be considered as promoting the carbon-neutral and resource-wise Finland focus area. These include, in particular, energy taxes, motor vehicle tax, car tax, excise duty on certain beverage packagings and waste tax. Although these taxes may be regarded as meeting sustainable development objectives, they may also include individual tax structures that are both in accordance with and contrary to the objectives.

Energy taxes are collected on transport fuels, off-road work machine and heating fuels, and electricity. In addition to the tax revenue they raise, energy taxes boost incentives for energy-efficiency and lower-emission energy production. Diagram 5 illustrates the deve-

lopment of the tax levels of various fuels and electricity from 2009 to 2018. The diagram shows that the tax levels of fuels and electricity have risen gradually since 2011, excluding the tax on peat, which has risen and fallen during the period. In 2011, the national energy tax system was reformed such that the litre- or weight-based excise duty on fuel was changed to an energy content tax, based on the energy content of a fuel, and to a carbon dioxide tax, based on the specific emissions of carbon dioxide arising from the combustion of a fuel. Local emissions arising from the combustion of fuels also began to be taken into account in the calculation criteria for the tax.

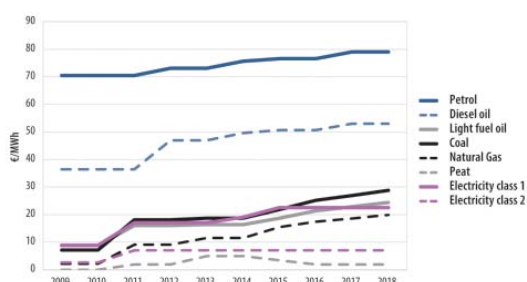


Diagram 5. Development of fuel and electricity tax levels 2009–2018, EUR/megawatt hour

The 2019 budget proposal makes changes to energy taxes that can be considered as contributing to the objectives of the carbon-neutral and resource-wise Finland focus area. The emissions steering of combined electricity and heat production will be increased. Taxation of off-road work machine and heating fuels will be increased and changed such that, in calculating the carbon dioxide tax of a fuel, other greenhouse gas emissions arising during the fuel's life cycle will also be taken into account in addition to the greenhouse gas emissions arising from the combustion of the fuel. Details of the 2019 tax changes are not yet known in all respects, but the tax level will rise from 2018.

Motor vehicle tax and car tax are determined partly on an emissions basis, so they increase the cost of acquiring larger-emission vehicles and therefore encourage a shift towards lower-emission transport. The excise duty on certain beverage packagings encourages recycling of beverage packagings. The waste tax, on the other hand, is a steering environmental tax aimed at reducing landfill processing of waste and increasing recycling.

The car tax emission scale has been steepened during this parliamentary term and the latest tax reduction for low-emission cars will enter into force from the beginning of 2019. The reduction of the motor vehicle tax for tax days beyond the start of 2020 will reduce motor vehicle tax receipts already in 2019. The tax reduction will reduce the costs of private motoring, but it will not be possible to assess the effects of the reduction with respect to sustainable development objectives until the legislative proposal is prepared.

### 4.3 Environmentally harmful subsidies

Environmentally harmful subsidies refer to subsidies that result in an increase in the utilisation of natural resources and the environmental burden in the subsidised enterprise or the subsidised sector. The introduction of these subsidies is generally justified on non-environmental grounds, as they may also have positive effects on other policy objectives such as food production, regional economy, employment and growth. These positive impacts should be taken into account in evaluating the subsidies.

The 2019 budget proposal includes environmentally harmful subsidies, which can be identified particularly in the tax system but also in appropriations. The environmentally

harmful subsidies discussed in this context are based on studies conducted earlier. (Environmental impact of subsidies in the sector of the Ministry of Agriculture and Forestry, 2012; Environmentally harmful subsidies, 2013; Preparation of the structural policy programme, 2013; Subsidies harmful to biodiversity, 2015. [All in Finnish])

The tax system includes tax subsidies, i.e. exemptions from the normal tax structure. The largest environmentally harmful tax subsidies are in the field of energy taxation, namely the lower than normal tax rates for diesel, off-road work machines, peat, industry and greenhouses, the tax refund for energy-intensive companies and the energy tax refund for agriculture. In the appropriations, compensation for indirect costs of emissions trading and certain agricultural subsidies, for example, can be classified as environmentally harmful subsidies.

Based on the above-mentioned studies, the environmentally harmful subsidies in the 2019 budget proposal are estimated to amount to

approximately EUR 3.5 billion, which mainly consist of various tax subsidies. Environmentally harmful subsidies are mainly directed at three sectors: energy, transport and agriculture. The transport sector is the largest of these, estimated at approximately EUR 1.4 billion, but the subsidy levels of the sectors are quite close to each other. In both the energy and agriculture sectors, the subsidies amount to slightly over EUR 1 billion.

The largest single environmental harmful subsidy consists of the lower electricity tax rate for industry and greenhouses, and it is estimated to amount to approximately EUR 600 million in 2019. In the transport sector, the subsidy levels of the lower tax rate on diesel, the commuting expenses deduction and the lower tax rate on light fuel oil used in off-road work machines are all close to approximately EUR 400 million. In the agriculture sector, the largest single subsidy consists of the payments for least favoured areas, which balances the effects of differences in natural conditions and amounts to approximately EUR 548 million.



## 5 Budget proposal 2019



Central government revenue and expenditure are examined in the general strategy and outlook of the budget proposal in chapters 4 and 5 as well as in the detailed rationale ([www.budjetti.vm.fi](http://www.budjetti.vm.fi), in Finnish or Swedish). The revenue estimates are presented by department and the appropriation estimates by administrative branch.

### 5.1 Revenue, expenditure, deficit and debt

#### Revenue

In 2019, central government on-budget revenue (excluding net borrowing) is estimated to be approximately EUR 53.9 billion, with tax revenue accounting for approximately 85%, i.e. EUR 45.8 billion. Tax revenue is expected to grow by 3.7% in 2019.

Diagram 6 examines the development of tax revenue between 2005 and 2019. The recovery in economic growth that began in 2016 has boosted growth in tax revenue. Value-added tax is the central government's largest single source of revenue. During the current

economic upswing, corporate tax revenue has grown most strongly. Growth in energy tax receipts, on the other hand, has remained subdued despite an increase in taxation.

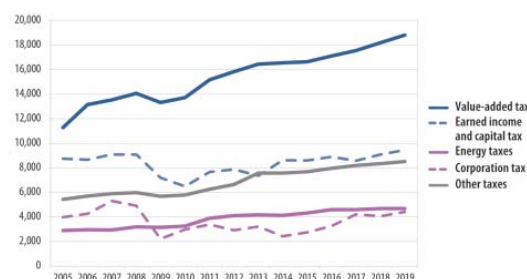


Diagram 6. State tax revenue by type 2005–2019, EUR million

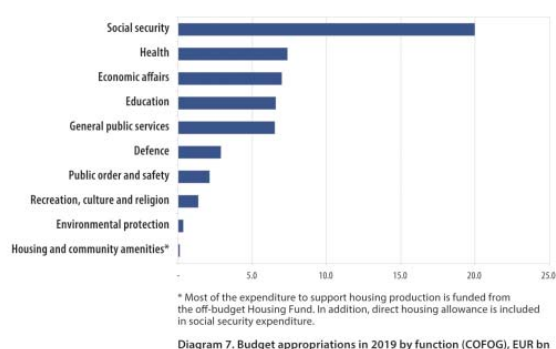
#### Expenditure

The appropriations of the budget proposal amount to EUR 55.3 billion, which is approximately EUR 0.5 billion less than in the actual 2018 budget. The expenditure level is reduced by the ending of fixed-term key projects, the consolidation measures in accordance with Annex 6 of the Government Programme, and lower unemployment benefit expenditure due to the improved employment situation. The savings impact of a number of consolidation measures, such as measures related to basic transport infrastructure, regional development of specialised medical care and operating expenditure, will grow in 2019. The impact of consolidation measures in accordance with Annex 6 of the Government Programme will reduce central government expenditure by approximately EUR 0.3 billion from 2018. In addition, the freezing of index adjustments is a factor that improves the budget balance.



The expenditure level is raised by, among other things, statutory and contractual increases, such as pay rises in accordance with the central government collective agreement concluded in the spring, and certain automatic factors, such as growth in age-related central government pension expenditure.

The allocation of appropriations, i.e. central government expenditure, to different purposes depends on political decisions, economic structures and economic cycles. In 2019, a significant share of the appropriations of the central government budget proposal will be allocated to social security (36%). Diagram 7 illustrates where the Finnish State will allocate its appropriations in accordance with the Government proposal in 2019.



Part of the revenue in the central government budget is received from the European Union, while Finland also pays contributions to the EU. At central government level, Finland is projected to contribute approximately EUR 2.1 billion to the EU budget and the European Development Fund in 2019. Finland's contributions will be EUR 205 million higher than the figure budgeted for 2018. Finland is expected to receive revenue of approximately EUR 1.2 billion from the EU budget, which is EUR 143 million more than the projected figure for 2018. The relationship between EU revenue and expenditure in the

central government finances is illustrated in Table 8. In accordance with the budget proposal of the EU for 2019, EU funding will be allocated to addressing challenges related to migration and the situation with refugees, improving the security of the citizens of EU Member States, and additional contributions related to strategic investments and sustainable growth.

Table 8. Flow of payments between Finland and the EU 2017–2019, EUR million

Central government expenditure	Final accounts 2017	Budget 2018	Budget proposal 2019
<b>On-budget finances</b>			
VAT payment	274	285	301
GNI payment	1,360	1,457	1,610
Finland's share of the UK budgetary rebate	164	139	149
EU PAYMENTS TOTAL	1,798	1,881	2,069
European Development Fund	60	57	74
<b>Total</b>	<b>1,858</b>	<b>1,938</b>	<b>2,143</b>
<b>Central government revenue</b>	<b>Final accounts 2017</b>	<b>Budget 2018</b>	<b>Budget proposal 2019</b>
<b>On-budget finances</b>			
Agricultural support	537	537	537
Rural development support	314	230	420
Subsidies from structural funds and cohesion funds	221	240	200
Customs duties and other levies	35	36	37
Other revenue	41	53	45
<b>Off-budget finances</b>			
Intervention Fund of Agriculture	0	0	0
Fund for Agricultural Development	0	0	0
<b>Total</b>	<b>1,149</b>	<b>1,096</b>	<b>1,239</b>
<b>Customs duties, agricultural payments and sugar payments collected on behalf of the EU</b>	<b>174</b>	<b>178</b>	<b>183</b>

## Deficit

The central government budget proposal for 2019 shows a deficit of approximately EUR 1.4 billion, which will be covered by increased borrowing. The deficit will decrease slightly compared with the figure budgeted for 2018, taking into account the already approved supplementary budget. The budget deficit for 2018 will be reduced by early repayment to the central government of refinancing credits. Without these premature repayments, the budget deficit for 2018 would be an estimated EUR 3.2 billion.

In national accounting terms, the central government deficit for 2019 is expected to be approximately 0.7% in ratio to GDP. Central

government on-budget activities have shown a deficit since 2009. The situation is illustrated in Diagram 8.

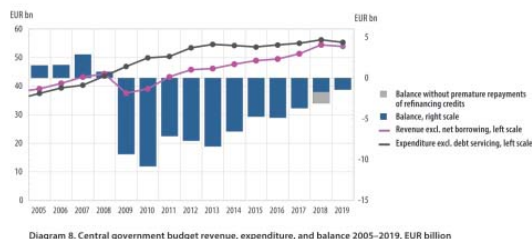


Diagram 8. Central government budget revenue, expenditure, and balance 2005–2019, EUR billion

## Debt

At the end of 2019, central government debt (including debt of off-budget entities) is expected to be approximately EUR 109 billion, which is approximately 45% in ratio to GDP. Diagram 9 illustrates that central government debt has more or less doubled over the last ten years.

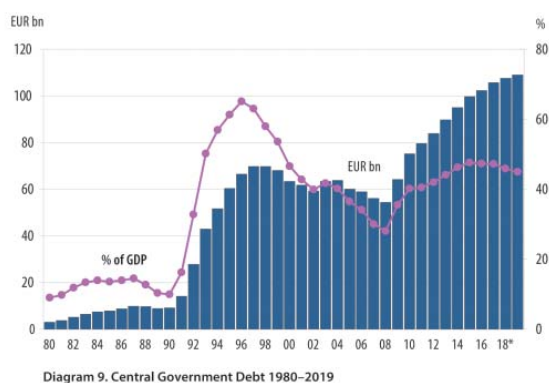


Diagram 9. Central Government Debt 1980–2019

## 5.2 Excerpts from tax and allocation decisions in budget proposal 2019

### TAX CRITERIA CHANGE

Most of the tax criteria changes under the Government Programme have already been implemented in 2016–2018. Key measures have been a reduction in taxation on labour and an increase in excise duty and real-estate tax taxation.

In 2019, the gradual entry into force of changes according to the Government Programme will continue: the tobacco tax will be tightened, the car tax will be eased and the deduction for interest paid on housing loans will be reduced.

The taxation of earned income will be reduced, with the emphasis on low-income earners, by raising the low-income allowance, the earned income deduction and the pension income allowances in central and local taxation. The combined effect of this annually, covering all tax recipients, will be EUR 130 million. In addition, an index adjustment will be made to the earned income taxation criteria to ensure that there is no increase in taxation arising from movements in the general earnings level. The existence of a reduced lower limit at which the so-called solidarity tax is paid will continue in 2019.

The maximum amount of the deduction for temporary quarters will be raised so it better supports moving for the sake of work. The tax exempt mileage allowance payable to voluntary workers will be broadened. In accordance with the Government Programme, municipalities will be compensated for the revenue impact of changes in tax criteria. The restriction of companies' right to deduct interest will be tightened when Finland imple-

ments the EU's Tax Evasion Directive.

Excise duties will be increased to compensate for the tax revenue losses resulting from the easing of earned income taxation. The excise duty on alcohol will be increased by an annual EUR 30 million and the excise duty on soft drinks by an annual EUR 25 million. Taxation of heating fuels will be changed so that the calculation of a fuel's carbon dioxide tax will take into account the average life cycle emissions of the fuel. In addition, the tax on peat will be increased and the tax subsidy for combined electricity and heat production will be changed so that the halving of the carbon dioxide tax is replaced by a reduction in the energy content tax. As a result, tax revenue from peat and other heating fuels will rise in gross terms by EUR 38 million. The motor vehicle tax will be reduced by EUR 50 million for tax days beyond the start of 2020, which will reduce tax receipts already in 2019.



## GENERAL PUBLIC SERVICES incl. Foreign Service

An appropriation of EUR 60 million is proposed to be allocated to the Prime Minister's Office in 2019 for the preparation and implementation of the Presidency of the Council of the European Union. Finland will hold the

Presidency of the Council of the European Union from 1 July to 31 December 2019.

A sum of EUR 0.7 million is proposed in 2019 for the Healthy Premises 2028 Programme. The programme aims to make public buildings healthy and improve healthcare and rehabilitation for those suffering from poor indoor air quality.

An appropriation of EUR 1.5 million is proposed for the Sami truth and reconciliation process.

An increase of EUR 7 million in election expenditure is proposed for the holding of the 2019 county elections in connection with the European Parliament elections.

An increase of 1.2 million is proposed for the Foreign Service for the reopening of the diplomatic mission in Baghdad.

An appropriation of EUR 211 million is proposed for the preparation of the regional government, health and social services reform, i.e. for county and interim administration costs, change management, the development and modification of information systems and information management, and the establishment and operation of the counties' joint service centres.

Of the central government transfer to local government for basic public services, EUR 30 million will be allocated to promote digitalisation in local government. In addition, EUR 10 million will be allocated to the discretionary increase in central government transfers to local government.

## DEFENCE

A EUR 9.8 million increase is proposed in Defence Forces appropriations for additional ex-

penditure resulting from the implementation of the Military Intelligence Act and an additional EUR 5.8 million for increasing the number of personnel.

A sum of EUR 260 million is proposed in defence materiel procurement for the first year's financial contribution to the Squadron 2020 Project.

An additional EUR 1.5 million is proposed for military crisis management, materiel and administration expenditure compared to the actual budget for 2018. The increase is mainly due to the planned continuation of the Iraq OIR and Afghanistan RS operations.

## PUBLIC ORDER AND SAFETY

An increase of EUR 18 million is proposed in Police appropriations to safeguard core operations. The aim of the funding is, among other things, to maintain the number of police at the current level, namely approximately 7,200. In addition, an increase of EUR 2.5 million is proposed for community police activities as well as EUR 3.3 million to increase the number of police in sparsely settled areas.

An additional appropriation of EUR 10 million will be allocated to the Finnish Security Intelligence for expenditure arising from civilian intelligence legislation, provided that the legislation enters into force in 2019. In addition, it is proposed that the Finnish Security Intelligence Service receive additional funding of EUR 2.5 million to secure its core activities and operational capacity.

An additional appropriation of just under EUR 2.4 million is proposed in Border Guard appropriations for increased resource needs resulting from the growth of external border

traffic at Helsinki-Vantaa Airport, and an increase of EUR 2 million is proposed to secure core operations.

Expenditure relating to asylum seekers will decline from 2018 by EUR 25 million. An estimate of 4,000 asylum seekers per year has been used as the assumption for immigration expenditure. Approximately 10,500 people are estimated to be within the scope of reception. The number of quota refugees will remain unchanged at 750 people.

Financial and debt counselling duties will be transferred to the state legal aid offices from the beginning of 2019. A total of EUR 8 million will be allocated to improving the position of over-indebted individuals. This will be directed at, among other things, financial and debt counselling, counselling of indebted individuals in connection with debt enforcement, and speeding up court proceedings.

Additional funding totalling EUR 1.8 million is proposed for the Criminal Sanctions Agency to enhance sanctions ancillary to conditional imprisonment and to reduce the recidivism risk of those convicted of violent offences.

## ISSUES RELATED TO BUSINESS AND INDUSTRY

An increase of EUR 10.3 million is proposed for Employment and Economic Development Offices to support active job seeking and improve services for jobseekers, and an additional EUR 10 million to arrange regular interviews.

It is proposed that the maximum of people on the wage subsidy payable to for example associations and foundations be raised from 3,000 to 4,000.

It is proposed that Business Finland's authorisation to make grants be EUR 344.4 million, which is EUR 73.6 million more than in the actual budget for 2018. An increase of EUR 8 million is proposed for the operating expenditure of Business Finland innovation funding agency, to be allocated to programme activities and to strengthen operations abroad.

An additional EUR 1 million is proposed for the Geological Survey of Finland to explore battery mineral reserves and the potential for strengthening the domestic battery cluster. It is proposed that funding for the VTT Technical Research Centre of Finland be increased by a total of EUR 10.4 million for the costs of the decommissioning of the FiR1 research reactor and the refurbishment of the Otakaari 3 hot cell facilities, and EUR 7 million for boosting strategic research.

It is proposed that EUR 3 million be allocated for rapidly implementable projects supporting the availability of skilled labour in regional cities, where the surrounding municipalities and businesses are also willing to make a contribution to financing the projects.

It is proposed that the authority to grant energy subsidies be increased by EUR 25 million.

The scrapping premium and support for the purchase of electric cars as well as gas and ethanol conversions of cars will be continued, and it is proposed that a total of EUR 6 million be allocated for this purpose.

An increase of EUR 15 million will be allocated to basic transport infrastructure, for example to reduce the repair debt and improve transport safety. In addition, an increase of EUR 4 million will be allocated to grants for the maintenance of improvement of private roads.

A number of appropriation increases are proposed to support agriculture, to ease the profitability problems of agriculture due to for example drought in the 2018 growing season. A EUR 27.5 million increase is proposed in 2019 for payments to least favoured areas. It is proposed that in 2019 EUR 20 million be paid with regard to the raised refund of energy taxes on agriculture paid in 2018. A sum of EUR 3 million will be allocated to the Farmers' Pension Institute (MELA) for 2019–2020 to continue the Vältit viljelijästä (Consideration for farmers) project. Additional investments are also proposed, for example to promote bioeconomy innovation, for food exports and to improve farm structure.



## ENVIRONMENTAL PROTECTION

A sum of EUR 15 million is allocated for the implementation of a new waterways protection enhancement programme.

The implementation of the Forest Biodiversity Programme for Southern Finland (METSO) will continue. In addition, EUR 0.2 million is proposed for updated inventories of traditional rural biotopes. Closure activities in the area of the Hitura mine, located in Nivala, will continue and it is proposed that EUR 16.3 million be allocated for this purpose.



## HOUSING AND COMMUNITY SERVICES

A sum of EUR 50 million from National Housing Fund resources can be used for the capitalisation of A-Kruunu Oy, which will facilitate an increase in construction.

## HEALTHCARE

An increase of EUR 6 million will be made in central government funding for university-level research in healthcare units.

The influenza vaccine programme will be developed and expanded so that the vaccine is offered in the future to children aged from six months to six years. An increase of EUR 1 million is proposed to acquire the vaccines.

It is proposed that the arrangement of student healthcare for higher education students be transferred to the Social Insurance Institution of Finland (Kela) from 2021. The Finnish Student Health Service (FSHS) would continue to act as a national provider of services and at the same its activities would be expanded to also cover students of universities of applied sciences. For the preparation of the reform, it is proposed that a total of EUR 3.0 million be allocated to the FSHS and EUR 0.9 million to Kela in 2019 and 2020.

## RECREATION AND CULTURE

The Schools on the Move programme will be extended to upper secondary school students, for which a total of EUR 2.8 million will be allocated in 2019.

To strengthen prerequisites for top-level

sport, the central government will prepare for the capitalisation of an Olympic Fund, which will be established by transferring to it a maximum of EUR 20 million of state-owned share assets. The central government capitalisation will be made in proportion to private capital provided.

## EDUCATION

As part of Government measures to promote skills, research and growth, it is proposed that the grant authorisations of the Academy of Finland for scientific research be raised by EUR 25 million. An additional appropriation of EUR 5 million annually will be allocated to strengthening the R&D&I activities of the universities of applied sciences.

A sum of EUR 10 million will be allocated for the implementation of the new Act on General Upper Secondary Education and for development of the quality of general upper secondary education. Implementation of the reform of upper secondary education will be launched by removing restrictions on the re-sitting of the matriculation examination, for which EUR 0.4 million will be allocated.

The implementation of the reform of vocational education and training will continue and will be further supported by additional funding of EUR 15 million.

Equality and raising the participation rate in early childhood education will be enhanced and an appropriation of EUR 10 million for positive discrimination grants is proposed for organisers of early childhood education.

The pilot project on free early childhood education for five-year-olds will be expanded, and an additional appropriation of EUR 5 million will be allocated for this purpose.

An increase of approximately EUR 8 million is proposed in expenditure on financial aid for students for extending the right to financial aid for students to primary and lower secondary education students who have passed the age of compulsory schooling, for a learning materials allowance for general upper secondary education and vocational education students, and for extending the academic year support period in general upper secondary education.



## SOCIAL SECURITY incl. earnings-related pensions

Due to the growing volume of pension expenditure and related index adjustments, an increase of EUR 115 million on the previous year is proposed for pensions and compensation paid by the central government.

It is expected that unemployment benefit expenditure will decline by approximately EUR 296 million, mainly due to a fall in the unemployment rate. Further efforts will be made to boost employment by allocating EUR 20 million to improving incentives to accept work. In addition, the realisation of the right to earnings-related unemployment benefit for family members of entrepreneurs will be promoted, for which EUR 10 million is proposed.

It is proposed that the scope of the pension subsidy be expanded to cover new age cohorts. People who have been unemployed for over five years and are aged 60 or more could receive the subsidy if they so wish. A net appropriation of approximately EUR 3 million is proposed for the pension subsidy.

An increase of EUR 3.5 million is proposed for Kela's social security funds, to be allocated to operating costs arising from the implementation of the activation model for unemployment benefit.

The status of adoptive and multiple-birth families will be improved. A sum of EUR 300,000 is proposed for adjusting the adoption grant for families adopting from abroad, and the paternity allowance period for fathers in multiple-birth families will be extended.

It is proposed that the levels of the smallest daily allowances (sickness allowance, parental allowance, rehabilitation allowance and special care allowance) be raised to the same level as labour market support, in which case the allowances would increase by EUR 80.50 per month. The cost impact of the increase for the central government would be approximately EUR 20 million on an annual basis. It is proposed that EUR 4.4 million in net terms be allocated to cover the costs of removing the 55-day qualifying period for sickness allowance.

It is proposed that the criteria for young people's vocational rehabilitation be eased to support the studies and employment of young people in a difficult position. In addition, a rehabilitation allowance would be paid as participation income to young people in vocational rehabilitation for the entire period of the rehabilitation decision. An additional appropriation of EUR 3.6 million is proposed in 2019 for the change.

It is proposed that the guaranteed pension be increased by approximately EUR 9 per month, which would increase central government expenditure by EUR 10 million on an annual basis.

New legislation will give front-line veterans the right to the same services supporting living at home to which disabled war veterans are already entitled. It is proposed that an additional EUR 40 million be allocated to this in 2019.

### 5.3 Local government finances and the regional government reform

The central government funds the operations of municipalities with central government transfers and discretionary government transfers provided through the government aid system. The central government cannot influence the expenditure in municipalities directly; this is governed by legislation enacted by the Parliament and the municipalities' own decisions. The local government finances programme and chapter 8 of the general strategy and outlook of the budget proposal describe the state of local government finances and the impact of central government measures on local government finances in further detail.

#### 5.3.1 Local government finances: revenue, expenditure and financial position

In 2019, the revenue of the municipalities is expected to consist of tax revenue (55%), operating income (22%), central government transfers (20%) and other revenue (4%). It is estimated that 47% of municipalities' ex-

penditure will be allocated to personnel expenses, 32% to procurement of services and materials, 11% to investments and 9% to other expenditure. The distribution of municipalities' revenue and expenditure is illustrated in Diagram 10.

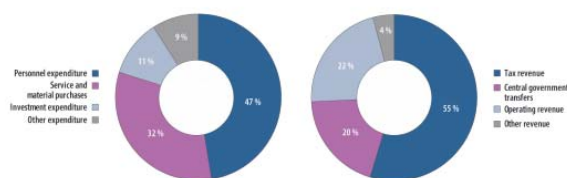
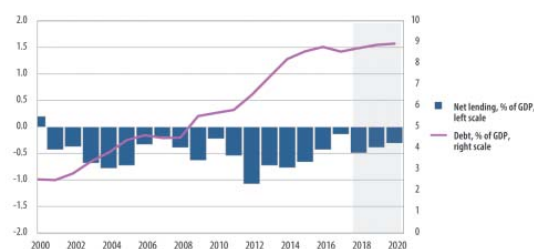


Diagram 10. Distribution of municipalities' revenue and expenditure in 2019, %

Under the Government's budgetary targets for local government finances, local government net lending (on a National Accounts basis) may not exceed -0.5 per cent in ratio to GDP in 2019. In the light of current forecasts, this target will be achieved in 2019. The deficit of the local government sector is estimated to be -0.3% in ratio to GDP and debt to be 8.8% in 2019. The development of the deficit and debt is illustrated in Diagram 11 and this topic is discussed in more detail in Chapter 2.4 of the autumn 2018 Economic Survey of the Ministry of Finance.



Source: Statistics Finland, Ministry of Finance

Diagram 11. Net lending and debt in the local government sector, % of GDP

Central government measures affect the revenue and expenditure of municipalities. The net impact of central government measures will weaken local government finances by approximately EUR 254 million in 2019. The

weakening is due above all to statutory adjustment to the division of costs between the central government and municipalities, and the freezing of index adjustments under the Government Programme. The impacts are transferred to municipalities as changes, decided by the Parliament, to the tasks, operations and funding of the municipalities. The most significant measures are the adjustment to the division of costs between central government and municipalities as well as measures reducing municipalities expenditure in accordance with Annex 6 of the Government Programme (e.g. centralisation of specialised medical care, revising the quality recommendation in services for the elderly, and development of informal and family care). The impact of central government measures on municipalities has been analysed in more detail in Chapter 8.3 of the general strategy and outlook of the budget proposal and in Chapter 2.2 of the local government finances programme.

### 5.3.2 Health, social services and regional government reform

The entry into force of the regional government, health and social services reform will

be postponed until the beginning of 2021. The Government's objective is for the county elections to be held in May 2019 and the county councils to begin their work in August the same year. The counties, however, would be established immediately after the legislation enters into force and the county interim administrations would lead the preparation of the counties' administration and operations until the elected county councils begin their term of office. The responsibility for the arrangement of health and social services and management of the duties of other administrative branches will be transferred to the counties at the beginning in 2021.

Approximately EUR 211 million in central government budget financing is earmarked for preparations for the implementation of the reform in 2019. The financing will cover the costs of advance preparations and the interim administration, planning and implementation of national information systems, and the establishment of the counties' joint service centres. The financing will be used to realise regional and national change management as well as preparations for the implementation required by the reform also in the Government.

## 6 Summary

This publication examines the budget proposal for 2019. The publication has been expanded to include an examination of sustainable development appropriations.

The key objectives of the Government include bridging the sustainability gap in general government finances and increasing the employment rate. The goal is to bring living on debt to an end in 2021. The Government Programme includes different consolidation measures. The focus of taxation will be shifted from taxing labour and entrepreneurship towards environmentally and health motivated taxation.

The economy is expected to continue to grow in 2019. The unemployment rate is projected to fall and the employment rate to rise. Due to population ageing, however, there is a considerable sustainability gap, i.e. an imbalance between revenue and expenditure, in general government finances in the long term.

The total sum of the budget proposal for 2019 is EUR 55.3 billion. The central government on-budget deficit is projected to amount to approximately EUR 1.4 billion and central government debt is expected to rise

to approximately EUR 109 billion.

The budget proposal for 2019 includes investments in supporting employment, skills and research, preventing inequality, preparing the reform of regional government, health and social services, police and defence operations, agriculture, waterways protection and early childhood education. Unemployment benefit expenditure is expected to decline due to an improving employment situation.

The budget proposal for 2019 will also be updated on the [www.tutkibudjettia.fi](http://www.tutkibudjettia.fi) website which allows the budget to be examined visually from different perspectives.





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